LeMond Cycling, Inc. v. Trek Bicycle Corporation
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TREK® USA

-K BICYCLE CORPORATION 801 W. Madison St., P.O. Box 183, Waterloo, WI 53594

FAX TRANSMITTAL

To: Greg Lemond
From: John Burke
Date: January 17, 1995

1. I am sorry that I did not have an opportunity to speak with you when Warren Gibson called me a couple of weeks ago. I was in an important meeting with a number of people.

2. We have an interest in developing and selling a Greg Lemond line of road bikes both in the United States market and overseas. In general, we would be interested in the following plan:

A. Develop 3-4 road bike models.

B. Sell these models through our Gary Fisher sales force. Fisher only has ATB's, and a Greg Lemond line of road bikes would be perfect.

C. We would want you to be involved in the design process as much as you would want to be.

D. We would want you to be involved in promoting the product.

3. We would also be interested in other Lemond products; however, we don't know what arrangements you have with other companies.

4. I would appreciate it if you could give me a call at (800) 313-8735, Ext. 2254.

(1) Very interested
(2) Boomerang Design w/ Japanese
(3) Giro Helmets
(4) Carnac
(5) Brian Sorchinger?

Best regards,

John Burke

John Burke
Vice President
Sales & Marketing

Telephone (414) 478-2191 Fax 414-478-2774

faxed 2/20

TREK® USA

TREK BICYCLE CORPORATION 801 W. Madison St., P.O. Box 183, Waterloo, WI 53594

To: Greg Lemond
From: John Burke
Date: February 20, 1995
Subject: Potential For Lemond In The Future

I am sorry that I have not gotten back to you sooner, it has been very busy.

Based on our phone conversations and a number of factors at Trek and Fisher, I see that Lemond would be set up in the following way:

A. Product

1. To begin with, Lemond would be positioned as road bikes. For Model Year '96, we would have three to four models in the line.
2. Price points of the models would be $700-$2,000.
3. For 1996, the bikes would have to be made out of welded steel. We have been working on this project for either Trek or Fisher and we have some great designs. The current plan is to use aluminum forks for the two lower end models and carbon forks for the upper end models.
4. We would also be interested in looking at the potential of Lemond accessories.

B. Sales and Marketing

1. Lemond would be positioned as a separate brand: it's own catalog, advertising, and support.
2. Lemond would be sold through the Fisher Sales Force in the United States. There are 16 salesmen who work exclusively for Fisher. We currently have 600 dealers in the U.S. By the end of '96 we should be up to 24 reps and 850 dealers.
3. International sales would be through our Fisher distributors. We have our own offices in Germany, Austria, and Switzerland that sell both Trek and Fisher. In addition, we have our own office in the Benelux that would do well with the product. We also have Fisher Distributors in around 15 additional countries.
4. The bad news is that the road bike market has declined significantly in the last five years. I know this well because in the U.S. market, Trek has the largest market share.

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5. My projection of Lemond road bikes would be the following:

Model	Retail	Dlr Price	Volume	Sales
Road 1	$800	$520	2,000	$1,040,000
Road 2	$1000	$650	2,000	$1,300,000
Road 3	$1400	$910	1,200	$1,092,000
Road 4	$2000	$1300	300	$390,000
Grand Total			5,500	$3,822,000

C. Your Involvement:

1. Help in the design of the products. We have a great engineering staff. You would give your input, and review all of the designs, and help to make component selection for the models.
2. Help promote the product line by working some of the trade shows, appearing at sales meetings, doing a couple of rides, and visiting some key customers and doing some clinics. I would see a minimum of 6 days at various trade shows, 3 days at various sales meetings, 3-4 rides per year, and 3-4 clinics per year. A lot of this depends on how much you want to get involved.
3. Being available for Catalog shoots.

D. Why This Would Be Successful:

1. We can offer a great product at a great value. We build great bikes in our own factory so that we can control engineering and design. We have the buying power of Trek (Trek is Shimano's largest customer worldwide) which can lead to great value.
2. Lemond is an incredible brand name. The combination of Trek and Lemond would re-launch the Lemond brand name in the market. Sales people will be excited, dealers will be excited, and the end consumer will be excited.
3. Sales and Service. In the U.S. market we have 16 reps who are employees of Fisher and do a great job. Their full attention would be paid to selling Fisher and Lemond. It is not like dealing with independent reps. Fisher also provides the best service in the industry. Fisher dealers love doing business with Fisher and they will view Lemond as a great opportunity.
4. We have the financial resources to put the cart before the horse and promote the brand strongly.
5. It makes great sense. Gary Fisher for mountain bikes and Greg Lemond for road bikes.
6. Use our leverage in a lot of other ways: 3 warehouses, the ability to give long terms to encourage large commitments, etc, etc.

E. How would this deal work financially? This is not an offer, it is a proposal.

1. You would get a royalty of 3% on all bike sales, 5% on parts sales. At first year's sales projection of $3.822 million, this would earn you $114,660 on bike sales.

2. All of your travel and entertainment expenses relating Lemond events would be paid for.

F. Why this might make sense for you.

1. It is difficult to make money in the bike business. It is extremely difficult to make money if you are a small frame maker. Name one person who has ever made good money with a small bike company.

2. Financially, this package would allow you to make a 3% royalty on bikes and 5% on parts. Even though the road market is weak, the royalty portion could amount to $75,000 to $150,000 per year. We would guarantee the minimum $75,000 in royalties.

3. You would be working with a very well-respected company. We have a lot of good people to work with.

As I stated above, this is a proposal. I first need to find out if you are interested before we get into the details. We are also looking at a couple of other opportunities right now and that might have some impact. As we discussed on the phone, there is some sense of urgency based on 1996 timelines, so the sooner I hear from you, the better. I will be in the office Tuesday, February 21, until 2:00 p.m., after which I will be leaving for Alabama on a golf trip. If I don't hear from you tommorrow, I would love to talk to you sometime during the week. Please call Cindy, my assistant, at Extension 2491, with a good time to reach you, preferably early morning or evening.

Best regards,

John Burke

John Burke